

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis,
Basic Financial Statements, Supplemental
Information, and Auditor's Reports Thereon

June 30, 2016



NEWHOUSE & VOGLER
Certified Public Accountants

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

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Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Aleutians East Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Aleutians East Borough's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit of the Aleutians East Borough School District. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Aleutians East Borough School District is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13, 20 through 22, and 49 through 52 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Aleutians East Borough's basic financial statements. The combining and individual non-major fund financial statements, and the Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not part of the basic financial statements. The accompanying schedule of State financial assistance is presented for purposes of additional analysis as required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2017 on our consideration of Aleutians East Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aleutians East Borough's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Newman & Vogel".

Anchorage, Alaska
March 8, 2017

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis

Year Ended June 30, 2016

As the management of The Aleutians East Borough (the Borough), we offer readers of the Borough's financial statements this narrative overview and analysis of the financial activities of the Borough for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the Borough's financial statements which follow this narrative.

FINANCIAL HIGHLIGHTS

- Assets of the Borough exceeded liabilities at the close of the fiscal year by \$100,982,469 (net position).
- The Borough's total net position increased by \$4,006,131, primarily due to investment earnings, State funding sources, and Fish Taxes collected during the year.
- Governmental funds reported combined ending fund balances of \$61,407,457, a decrease of \$2,535,839 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,946,269, or 29 percent of total general fund balance for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Borough's basic financial statements. The Borough's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Borough through use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Borough.

THE ALEUTIANS EAST BOROUGH

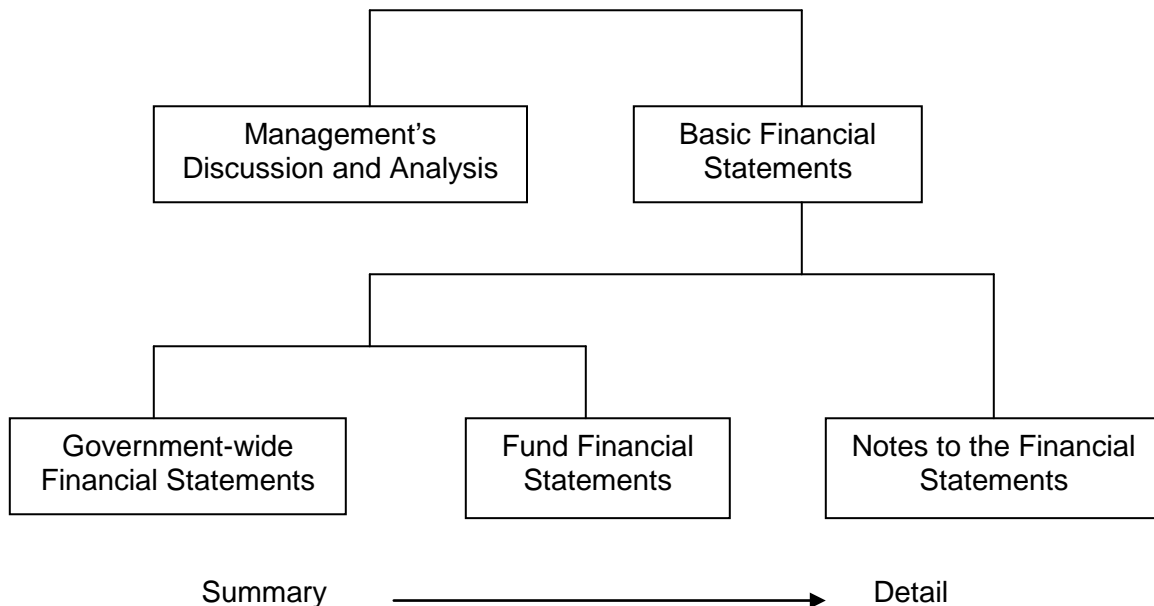
King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are government-wide financial statements. They provide both short- and long-term information about the Borough's financial status.

The next statements (Exhibits B-1 through B-5) are fund financial statements. These statements focus on activities of the individual parts of the Borough's government. These statements provide more detail than government-wide statements. There are two parts to fund financial statements: governmental funds statements and budgetary comparison statements.

The next section of the basic financial statements is notes. Notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Borough's individual funds. Budgetary information can also be found in this part of the statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide the reader with a broad overview of the Borough's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short- and long-term information about the Borough's financial status as a whole.

The two government-wide statements report the Borough's net position and how they have changed. Net position is the difference between the Borough's total assets and total liabilities. Measuring net position is one way to gauge the Borough's financial condition.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Government-wide Financial Statements, continued

Government-wide statements are divided into two categories: governmental activities and component units. Governmental activities include the Borough's basic services such as natural resource management, capital projects management, and general administration. State and federal grant funds finance most of these activities. The component unit includes the Aleutians East Borough School District. The District's activities include Instruction, Support Services, Student Transportation, and Food Services, among others. These activities are supported by local, State, and federal financial aid.

Government-wide financial statements are Exhibits A-1 and A-2 of this report.

Fund Financial Statements

Fund financial statements (see Figure 2) provide a more detailed look at the Borough's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All funds of the Borough are included within one broad category: governmental funds.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

The Aleutians East Borough's Net Position
Figure 2

	2016	2015
Current and other assets	\$ 56,902,768	54,057,206
Capital assets	78,089,491	86,845,901
Deferred outflows - pension related	<u>231,614</u>	<u>-</u>
<i>Total assets</i>	<u><u>\$ 135,223,873</u></u>	<u><u>140,903,107</u></u>
Liabilities	<u>\$ 34,030,830</u>	<u>33,679,863</u>
Deferred Inflows	<u>210,574</u>	<u>-</u>
Net position:		
Net investment in capital assets	50,762,461	56,369,849
Reserved:		
Forward funding	9,455,108	8,449,389
Construction	1,287,711	4,506,811
Permanent fund	38,879,060	37,328,823
Unreserved:		
Designated for major maintenance	-	57,097
Undesignated	<u>598,130</u>	<u>511,275</u>
<i>Total net position</i>	<u><u>100,982,469</u></u>	<u><u>107,223,244</u></u>
	<u><u>\$ 135,223,873</u></u>	<u><u>140,903,107</u></u>

Fund Financial Statements, continued

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Borough's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Borough's programs. The relationship between government activities (reported in the statement of net position and statement of activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Fund Financial Statements, continued

The Borough adopts an annual budget for its general fund. The budget is a legally adopted document that incorporates input from the management of the Borough and decisions of the Assembly about which services to provide and how to pay for them. It also authorizes the Borough to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the general fund demonstrates how well the Borough complied with the budget and whether or not the Borough succeeded in providing services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Assembly; 2) the final budget as amended by the Assembly; 3) actual resources, charges to appropriations, and ending balances in the general fund; and 4) the difference or variance between the final budget and actual resources and charges. To account for the difference between the budgetary basis of accounting and modified accrual basis, a reconciliation showing differences in reported activities is shown at the end of the budgetary statement.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of data provided in the government-wide and fund financial statements. Notes to the financial statements are on pages 27 through 48 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Assets of the Borough exceeded liabilities by \$100,982,469 as of June 30, 2016. The Borough's net position increased by \$4,006,131 for the fiscal year ended June 30, 2016. However, the largest portion reflects the Borough's investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt still outstanding that was issued to acquire those items. The Borough uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of any outstanding related debt, resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Governmental Activities

Governmental activities increased the Borough's net position by \$4,006,131, thereby accounting for 152 percent of total change in net position of the Borough (see Figure 3). Key elements of this change are as follows:

- Prior year adjustment for unrecorded revenues
- Investment earnings increased
- Increased state funding
- Increased fish taxes

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Governmental Activities, continued

The Aleutians East Borough Changes in Net Position Figure 3

Revenues:

Program:

Charges for services	\$ 5,329,905
Operating grants and contributions	4,163,372
Capital grants and contributions	1,127,652

General:

Unrestricted investment earnings	7,742
Restricted investment earnings	1,320,374
Local contributions	415,267
PERS - on behalf	53,246
Gain on sale of asset	43,093
Miscellaneous	<u>1,758,824</u>
<i>Total revenues</i>	<u>14,219,475</u>

Expenses:

General fund	6,393,090
Capital improvements	152,921
Trust fund	41,422
Debt service	1,265,688
Bond construction	41,423
Maintenace reserve	142,573
Business Type Activities	<u>2,176,227</u>
<i>Total expenses</i>	<u>10,213,344</u>

Increase in net position	4,006,131
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Net position, beginning of year	96,628,230
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Prior period adjustment	<u>348,108</u>
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Net position, beginning of year, restated	<u>96,976,338</u>
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Net position, end of year	<u><u>\$ 100,982,469</u></u>
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THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As noted earlier, the Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Borough's financing requirements. Specifically, the unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$13,468,391 and expenditures of \$11,386,998. The net change in fund balances after transfers and prior period adjustments was a decrease of \$7,343,177.

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

At June 30, 2016, governmental funds of the Borough reported a combined fund balance of \$51,785,549, a 12 percent decrease over the last year.

Budgetary Highlights

General fund budgets are prepared according to Alaska law and are based on a modified accrual basis of accounting. The most significant budgeted fund is the general fund.

Actual revenues in the general fund were \$135,416 more than anticipated. This variance was related primarily to the Borough raw fish taxes, and funds returned from its component unit.

Actual revenues in capital improvements were \$1,171,253 less than anticipated. This variance was primarily due to less grant funding sources for planned projects.

Actual expenditures in capital improvements were \$96,830 more than anticipated. This variance was due to the increase in activity within this fund.

Actual revenues in the trust fund were \$946,492 greater than anticipated. This variance was due to investments performing better than anticipated.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS, continued

Budgetary Highlights

Actual revenues in the bond construction fund were \$4,976,964 less than anticipated. This variance was due to a decrease in other revenue.

Actual expenditures in the trust fund were \$3,951,424 less than anticipated. This variance was due to less capital outlays than expected.

Actual revenues in the maintenance reserve fund were \$2,008,792 less than anticipated. This variance was due to less fund needed due to lower capital outlays than expected.

Actual expenditures in the maintenance reserve fund were \$1,235,155 less than anticipated. This variance was due to less capital outlays than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Aleutians East Borough's investment in capital assets for its governmental and business-type activities as of June 30, 2016 totals \$78,089,491 (net of accumulated depreciation; see Figure 4).

Major capital asset transactions during the year include the following additions:

- Construction in process additions totaled \$4,472,917.
- Building Improvements totaled \$248,216
- Decreases due to sales of building totaled \$243,252
- Current year depreciation of \$2,471,690.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis, continued

CAPITAL ASSET AND DEBT ADMINISTRATION, continued

Capital Assets, continued

The Aleutians East Borough's Capital Assets
Figure 4

	Capital Assets, Depreciated							Totals
	Capital Assets, Not Depreciated -						Access	
	Land	Buildings	Infra-structure	Furniture and Equipment	Vehicles	Infrastructure Construction in Process	Road Construction in Process	
Primary government -								
Governmental activities:								
Balance, June 30, 2015	\$5,323,074	45,318,426	62,245,095	759,258	281,089	11,987,231	-	125,914,173
Increases	-	248,216	-	-	-	4,570,133	-	4,818,349
Decreased	-	(243,252)	-	-	-	(97,216)	-	(340,468)
Balance, June 30, 2016	5,323,074	45,323,390	62,245,095	759,258	281,089	16,460,148	-	130,392,054
Accumulated depreciation -								
Balance, June 30, 2016	-	(37,631,440)	(24,334,326)	(707,826)	(195,478)	-	-	(62,869,070)
Capital assets, net	<u>5,323,074</u>	<u>7,691,950</u>	<u>37,910,769</u>	<u>51,432</u>	<u>85,611</u>	<u>16,460,148</u>	<u>-</u>	<u>67,522,984</u>
Business-type activities:								
Balance, June 30, 2015	-	7,403,571	-	5,097,556	-	-	-	12,501,127
Decreases	-	-	-	-	-	-	-	-
Balance, June 30, 2016	-	7,403,571	-	5,097,556	-	-	-	12,501,127
Accumulated depreciation -								
Balance, June 30, 2016	-	(1,889,094)	-	(45,526)	-	-	-	(1,934,620)
Capital assets, net	<u>-</u>	<u>5,514,477</u>	<u>-</u>	<u>5,052,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,566,507</u>
Total Governmental activities:	<u>5,323,074</u>	<u>13,206,427</u>	<u>37,910,769</u>	<u>5,103,462</u>	<u>85,611</u>	<u>16,460,148</u>	<u>-</u>	<u>78,089,491</u>
Component units:								
Balance, June 30, 2015	-	-	-	885,786	-	-	-	885,786
Increases	-	-	-	21,497	-	-	-	21,497
Balance, June 30, 2016	-	-	-	907,283	-	-	-	907,283
Accumulated depreciation -								
Balance, June 30, 2016	-	-	-	(609,758)	-	-	-	(609,758)
Capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>297,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,525</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

Long-term Debt

Additional information on the Borough's capital assets can be found in the notes to the basic financial statements.

As of June 30, 2016, the Borough had the following outstanding debt:

Bonds payable at July 1, 2015	\$ 28,610,000
Principal payments	<u>(1,335,000)</u>
Bonds payable at June 30, 2016	<u>\$ 27,275,000</u>

Additional information on the Borough's outstanding debt can be found in the notes to the basic financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Borough's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Director of Finance, The Aleutians East Borough, PO Box 49, King Cove, AK 99612.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Government-wide Statement Net Position

June 30, 2016

	Primary Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	\$ 300	-	300	-
Equity in central treasury	54,270,605	-	54,270,605	3,487,420
Investment in Southwest Governments, LLC	416,583	-	416,583	-
Prepays	-	30,542	30,542	194,312
Due From Component Unit	391,065	-	391,065	-
Inventory	-	-	-	31,134
Receivables, net:				
State of Alaska	567,316	-	567,316	-
Federal	656,173	-	656,173	-
School	23,009	-	23,009	-
Accrued interest	104,888	-	104,888	-
Other	439,732	2,555	442,287	35,007
<i>Total receivables</i>	<u>1,791,118</u>	<u>2,555</u>	<u>1,793,673</u>	<u>35,007</u>
Internal balances	-	-	-	-
Capital assets:				
Assets held for sale	-	5,000,000	5,000,000	-
Land and construction in progress	21,783,222	-	21,783,222	-
Other capital assets, net of depreciation	45,739,762	5,566,507	51,306,269	297,525
<i>Total capital assets</i>	<u>67,522,984</u>	<u>10,566,507</u>	<u>78,089,491</u>	<u>297,525</u>
Deferred outflows - pension related	231,614	-	231,614	928,044
	<u>\$ 124,624,269</u>	<u>10,599,604</u>	<u>135,223,873</u>	<u>4,973,442</u>
Liabilities				
Accounts payable	\$ 4,496,452	7,278	4,503,730	176,571
Accrued payroll and taxes	-	-	-	369,563
Accrued vacation	71,816	-	71,816	35,170
Unearned revenue	587,670	-	587,670	11,696
Due to primary government	-	-	-	391,065
Debt payable	27,275,000	-	27,275,000	-
Net pension liability	1,592,614	-	1,592,614	4,061,397
<i>Total liabilities</i>	<u>34,023,552</u>	<u>7,278</u>	<u>34,030,830</u>	<u>5,045,462</u>
Deferred inflows - pension related	210,574	-	210,574	73,842
Net Position				
Net investment in capital assets	40,247,984	10,514,477	50,762,461	297,525
Reserved:				-
Forward funding	9,455,108	-	9,455,108	-
Construction	1,287,711	-	1,287,711	-
Permanent fund	38,879,060	-	38,879,060	-
Unreserved:				
Designated for major maintenance	-	-	-	-
Undesignated	520,281	77,849	598,130	(443,387)
<i>Total net position</i>	<u>90,390,143</u>	<u>10,592,326</u>	<u>100,982,469</u>	<u>(145,862)</u>
	<u>\$ 124,624,269</u>	<u>10,599,604</u>	<u>135,223,873</u>	<u>4,973,442</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit A-2

Government-wide Statement of Activities

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Component Unit
Primary governmental activities:							
General Fund	\$ 6,393,090	4,675,160	4,163,372	-	2,445,442	-	-
Capital improvements	152,921	-	-	1,127,652	974,731	-	-
Trust fund	41,422	-	-	-	(41,422)	-	-
Debt service	1,265,688	-	-	-	(1,265,688)	-	-
Bond construction	41,423	-	-	-	(41,423)	-	-
Maintenance reserve	142,573	-	-	-	(142,573)	-	-
<i>Total primary governmental activities</i>	<u>8,037,117</u>	<u>4,675,160</u>	<u>4,163,372</u>	<u>1,127,652</u>	<u>1,929,067</u>	<u>-</u>	<u>-</u>
Business-type activity - Hovercraft & Terminal	<u>2,176,227</u>	<u>654,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,521,482)</u>	<u>-</u>
Total primary government	<u>10,213,344</u>	<u>5,329,905</u>	<u>4,163,372</u>	<u>1,127,652</u>	<u>1,929,067</u>	<u>(1,521,482)</u>	<u>-</u>
Component unit - Aleutians East Borough School District	<u>\$10,005,184</u>	<u>118,280</u>	<u>391,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,494,967)</u>
				Primary Governmental Activities	Business-type Activities	Total	Component Unit
General revenues:							
Unrestricted investment earnings				\$ 7,742	-	7,742	-
Restricted investment earnings				1,320,374	-	1,320,374	-
Local contributions				415,267	-	415,267	1,814,194
State grants and entitlements				-	-	-	5,004,034
Federal sources				-	-	-	2,105,957
PERS - on behalf				53,246	-	53,246	-
Gain on sale of asset				43,093	-	43,093	-
Miscellaneous				1,758,824	-	1,758,824	72,017
<i>Total general revenues</i>				<u>3,598,546</u>	<u>-</u>	<u>3,598,546</u>	<u>8,996,202</u>
Operating transfers in (out)				<u>(9,621,908)</u>	<u>9,621,908</u>	<u>-</u>	<u>-</u>
Change in net position				<u>(4,094,295)</u>	<u>8,100,426</u>	<u>4,006,131</u>	<u>(498,765)</u>
Net position, beginning of year				<u>94,136,330</u>	<u>2,491,900</u>	<u>96,628,230</u>	<u>352,903</u>
Prior period adjustment				<u>348,108</u>	<u>-</u>	<u>348,108</u>	<u>-</u>
Net position, beginning of year, restated				<u>94,484,438</u>	<u>2,491,900</u>	<u>96,976,338</u>	<u>352,903</u>
Net position, end of year				<u>\$ 90,390,143</u>	<u>10,592,326</u>	<u>100,982,469</u>	<u>(145,862)</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Governmental Funds

Combining Balance Sheet

June 30, 2016

	Major Funds						Total
	General	Capital Improvements	Trust Fund	Debt Service	Bond Construction	Maintenance Reserve	Governmental Funds
Assets							
Cash and cash equivalents	\$ 300	-	-	-	-	-	300
Equity in central treasury	5,631,610	1,300,597	40,326,379	-	7,012,019	-	54,270,605
Investment in Southwest Governments, LLC	-	-	416,583	-	-	-	416,583
Receivables, net:							
State of Alaska	497,329	69,987	-	-	-	-	567,316
Federal	-	656,173	-	-	-	-	656,173
School	-	-	-	-	-	23,009	23,009
Accrued interest	5,111	-	86,720	-	13,057	-	104,888
Other	429,787	9,945	-	-	-	-	439,732
<i>Total receivables</i>	932,227	736,105	86,720	-	13,057	23,009	1,791,118
Due from Component Unit	391,065	-	-	-	-	-	391,065
Due from other funds	7,036,403	-	-	-	-	-	7,317,173
	<u>\$ 13,991,605</u>	<u>2,036,702</u>	<u>40,829,682</u>	<u>-</u>	<u>7,025,076</u>	<u>23,009</u>	<u>64,186,844</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 2,558	83,184	-	-	4,371,796	38,914	4,496,452
Unearned revenue	587,670	-	-	-	-	-	587,670
Due to other funds	-	1,793,595	1,950,622	64,933	3,328,342	179,681	7,317,173
<i>Total liabilities</i>	590,228	1,876,779	1,950,622	64,933	7,700,138	218,595	12,401,295
Fund balances:							
Committed:							
Forward funding	9,455,108	-	-	-	-	-	9,455,108
Construction	-	-	-	-	1,006,941	-	1,287,711
Permanent fund	-	-	38,879,060	-	-	-	38,879,060
Assigned:							
Designated for major maintenance	-	-	-	-	-	-	-
Unassigned	3,946,269	159,923	-	(64,933)	(1,682,003)	(195,586)	2,163,671
<i>Total fund balances (deficits)</i>	13,401,377	159,923	38,879,060	(64,933)	(675,062)	(195,586)	51,785,549
	<u>\$ 13,991,605</u>	<u>2,036,702</u>	<u>40,829,682</u>	<u>-</u>	<u>7,025,076</u>	<u>23,009</u>	<u>64,186,844</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit B-2

Governmental Funds

Reconciliation of Fund Balance to Net Position

Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - Total governmental funds	\$ 51,785,549
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	67,522,984
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Pension related deferred outflows of resources that are not financial resources and, therefore, are not reported in the funds:

Total deferred inflows	<u>231,614</u>
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General long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Bonds payable	(27,275,000)
Net pension liability	<u>(1,592,614)</u>
Total long-term liabilities	(28,867,614)

Pension related deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:

Total deferred inflows	<u>(210,574)</u>
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Compensated absences	<u>(71,816)</u>
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Net position of governmental activities	<u>\$ 90,390,143</u>
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See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Governmental Funds**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance**Year Ended June 30, 2016*

	Major Funds						Total	
	General Fund	Capital Improvements	Trust Fund	Debt Service	Bond Construction	Maintenance Reserve	Nonmajor Funds	Governmental Funds
Revenues:								
Federal government	\$ 531,133	1,008,506	-	-	-	-	-	1,539,639
State of Alaska	3,632,239	119,146	-	-	-	-	-	3,751,385
Borough raw fish tax	4,675,160	-	-	-	-	-	-	4,675,160
Investment income	7,742	846	1,296,492	-	23,036	-	-	1,328,116
Contributions	-	415,267	-	-	-	-	-	415,267
Other	608,834	25,982	-	-	-	1,124,008	-	1,758,824
<i>Total revenues</i>	<u>9,455,108</u>	<u>1,569,747</u>	<u>1,296,492</u>	<u>-</u>	<u>23,036</u>	<u>1,124,008</u>	<u>-</u>	<u>13,468,391</u>
Expenditures:								
Current:								
Mayor's office	248,173	-	-	-	-	-	-	248,173
Assembly	185,705	-	-	-	-	-	-	185,705
Clerk and planning management	197,904	-	-	-	-	-	-	197,904
Administration	381,875	-	-	-	-	-	-	381,875
Assistant administrator	154,283	-	-	-	-	-	-	154,283
Finance	278,100	-	-	-	-	-	-	278,100
Resource department	400,801	-	-	-	-	-	-	400,801
Public works	162,120	-	-	-	-	-	-	162,120
Other	1,677,876	-	-	-	-	-	-	1,677,876
Capital outlays	-	2,111,830	-	-	1,048,576	1,897,645	-	5,058,051
Principle	-	-	-	1,335,000	-	-	-	1,335,000
Interest	-	-	-	1,265,688	-	-	-	1,265,688
Trust fund	-	-	41,422	-	-	-	-	41,422
<i>Total expenditures</i>	<u>3,686,837</u>	<u>2,111,830</u>	<u>41,422</u>	<u>2,600,688</u>	<u>1,048,576</u>	<u>1,897,645</u>	<u>-</u>	<u>11,386,998</u>
Excess of revenues over (under) expenditures	<u>5,768,271</u>	<u>(542,083)</u>	<u>1,255,070</u>	<u>(2,600,688)</u>	<u>(1,025,540)</u>	<u>(773,637)</u>	<u>-</u>	<u>2,081,393</u>
Other financing sources (uses):								
Proceeds from sales	-	-	-	-	-	106,338	-	106,338
Transfers from other funds	-	808,000	-	2,600,688	-	320,000	-	3,728,688
Transfers to other funds	<u>(12,222,596)</u>	<u>-</u>	<u>(1,128,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,350,596)</u>
<i>Total other financing sources (uses)</i>	<u>(12,222,596)</u>	<u>808,000</u>	<u>(1,128,000)</u>	<u>2,600,688</u>	<u>-</u>	<u>426,338</u>	<u>-</u>	<u>(9,515,570)</u>
Net change in fund balances	(6,454,325)	265,917	127,070	-	(1,025,540)	(347,299)	-	(7,434,177)
Fund balances (deficit), beginning of year	19,507,594	(105,994)	38,751,990	(64,933)	350,478	151,713	280,770	58,871,618
Prior period adjustment	348,108	-	-	-	-	-	-	348,108
Fund balances (deficit), beginning of year, restated	<u>19,855,702</u>	<u>(105,994)</u>	<u>38,751,990</u>	<u>(64,933)</u>	<u>350,478</u>	<u>151,713</u>	<u>280,770</u>	<u>59,219,726</u>
Fund balances (deficit), end of year	\$ 13,401,377	159,923	38,879,060	(64,933)	(675,062)	(195,586)	280,770	51,785,549

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit B-4

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - Total governmental funds \$ (7,434,177)

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized outlays of \$4,721,134 were exceeded by depreciation of \$2,471,690 in the current period. 2,249,444

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount represent principal payments of \$1,335,000 1,335,000

Governmental funds do not report PERS on-behalf payments from the State of Alaska, however, these payments are recognized as revenues on the statement of activity these payments are recognized as revenues. Total on-behalf payment during the year were \$54,246 53,246

Governmental funds report compensated absences when taken; however, in the statement of activities, the cost of absences are expensed when earned. The amount of compensated absences earned and outstanding at the end of the year increased from \$70,536 to \$71,816. (1,280)

Governmental funds do not report expenditures related to PERS, however, PERS related expenses are recognized on the government wide financial statements. The total PERS expense this year was \$233,106 (233,283)

Governmental funds report proceeds from sales of capital assets, however, on the statement of activities, only the gain or a loss on the asset is recorded. Total receipt on sale was \$106,338 and the actual gain on the asset was \$43,093 (63,245)

Total changes in net position of governmental activities \$ (4,094,295)

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2016

	General Fund				Capital Improvements		
	Original	Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:							
Federal government	\$ 559,000	531,133	531,133	-	\$ 726,000	1,008,506	282,506
State of Alaska	3,348,240	4,091,724	3,632,239	(459,485)	-	119,146	119,146
Borough raw fish tax	3,200,779	4,440,651	4,675,160	234,509	-	-	-
Investment income	35,000	7,742	7,742	-	-	846	846
Contributions	-	-	-	-	-	415,267	415,267
Other	71,256	248,442	608,834	360,392	2,015,000	25,982	(1,989,018)
<i>Total revenues</i>	<u>7,214,275</u>	<u>9,319,692</u>	<u>9,455,108</u>	<u>135,416</u>	<u>2,741,000</u>	<u>1,569,747</u>	<u>(1,171,253)</u>
Expenditures:							
Current:							
Mayor's office	266,304	259,494	248,173	11,321	-	-	-
Assembly	124,000	185,915	185,705	210	-	-	-
Clerk and planning management	281,365	199,565	197,904	1,661	-	-	-
Administration	364,575	382,323	381,875	448	-	-	-
Assistant administrator	149,085	154,338	154,283	55	-	-	-
Finance	255,573	278,155	278,100	55	-	-	-
Resource department	426,883	416,613	400,801	15,812	-	-	-
Public works	131,616	162,126	162,120	6	-	-	-
Other	1,714,522	1,646,858	1,677,876	(31,018)	-	-	-
Capital outlay	-	-	-	-	2,015,000	2,111,830	(96,830)
<i>Total expenditures</i>	<u>3,713,923</u>	<u>3,685,387</u>	<u>3,686,837</u>	<u>(1,450)</u>	<u>2,015,000</u>	<u>2,111,830</u>	<u>(96,830)</u>
Excess of revenues over (under) expenditures	3,500,352	5,634,305	5,768,271	133,966	726,000	(542,083)	(1,268,083)
Other financing uses -							
Transfers (to) from other funds	(2,170,000)	(2,600,688)	(12,222,596)	9,621,908	-	808,000	808,000
<i>Total other financing uses</i>	<u>(2,170,000)</u>	<u>(2,600,688)</u>	<u>(12,222,596)</u>	<u>9,621,908</u>	<u>-</u>	<u>808,000</u>	<u>808,000</u>
Excess of revenues and other financing sources (under) over expenditures and other uses	<u>\$ 1,330,352</u>	<u>3,033,617</u>	<u>(6,454,325)</u>	<u>9,755,874</u>	<u>\$ 726,000</u>	<u>265,917</u>	<u>(460,083)</u>
Prior Period Adjustment			348,108			-	
Fund balances, beginning of year			<u>19,507,594</u>			<u>(105,994)</u>	
Fund balances (deficit), end of year			<u>\$ 13,401,377</u>			<u>159,923</u>	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit B-5,
continued

General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, continued

	Trust fund			Debt Service Fund		
	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:						
Investment income	\$ 350,000	1,296,492	946,492	\$ -	-	-
<i>Total revenues</i>	<u>350,000</u>	<u>1,296,492</u>	<u>946,492</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:						
Principle	-	-	-	1,335,000	1,335,000	-
Interest	-	-	-	1,265,688	1,265,688	-
Trust fund	35,000	41,422	(6,422)	-	-	-
<i>Total expenditures</i>	<u>35,000</u>	<u>41,422</u>	<u>(6,422)</u>	<u>2,600,688</u>	<u>2,600,688</u>	<u>-</u>
Excess of revenues over (under) expenditures	315,000	1,255,070	940,070	(2,600,688)	(2,600,688)	-
Other financing sources -						
Transfers from other funds	-	(1,128,000)	(1,128,000)	2,600,688	2,600,688	-
<i>Total other financing sources</i>	<u>-</u>	<u>(1,128,000)</u>	<u>(1,128,000)</u>	<u>2,600,688</u>	<u>2,600,688</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other uses	<u>\$ 315,000</u>	127,070	<u>(187,930)</u>	<u>\$ (2,600,688)</u>	-	<u>-</u>
Fund balances, beginning of year		<u>38,751,990</u>			<u>(64,933)</u>	
Fund balances, end of year		<u>\$ 38,879,060</u>			<u>(64,933)</u>	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

General Fund and Annually Budgeted Special Revenue Funds

*Statement of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual, continued*

	Bond Construction			Maintenance Reserve		
			Variance with			Variance with
	Original/Final	Actual	Final Budget -	Original/Final	Actual	Final Budget -
		Amounts	Favorable			Favorable
			(Unfavorable)			(Unfavorable)
Revenues:						
Investment income	\$ -	23,036	23,036	\$ -	-	-
Other	5,000,000	-	(5,000,000)	3,132,800	1,124,008	(2,008,792)
<i>Total revenues</i>	<u>5,000,000</u>	<u>23,036</u>	<u>(4,976,964)</u>	<u>3,132,800</u>	<u>1,124,008</u>	<u>(2,008,792)</u>
Expenditures:						
Current:						
Capital outlay	5,000,000	1,048,576	3,951,424	3,132,800	1,897,645	1,235,155
<i>Total expenditures</i>	<u>5,000,000</u>	<u>1,048,576</u>	<u>3,951,424</u>	<u>3,132,800</u>	<u>1,897,645</u>	<u>1,235,155</u>
Excess of revenues under expenditures	-	(1,025,540)	(1,025,540)	-	(773,637)	(773,637)
Other financing sources -						
Proceeds from sales					106,338	106,338
Transfers from other funds	-	-	-	-	320,000	320,000
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>426,338</u>	<u>426,338</u>
Excess of revenues and other financing sources under expenditures and other uses	<u>\$ -</u>	<u>(1,025,540)</u>	<u>(1,025,540)</u>	<u>\$ -</u>	<u>(347,299)</u>	<u>(347,299)</u>
Fund balance, beginning of year		350,478			151,713	
Prior period adjustment		-			-	
Fund balance, beginning of year restated		<u>350,478</u>			<u>151,713</u>	
Fund balance, end of year		<u>\$ (675,062)</u>			<u>\$ (195,586)</u>	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit C-1

*Business-type Activities - Hovercraft, Terminal, and Helicopter**Combining Statement of Net Position**June 30, 2016*

	Hovercraft	Terminal	Helicopter	Total
Assets				
Prepays	\$ 30,542	-	-	30,542
Receivables, net	2,555	-	-	2,555
Assets held for sale	5,000,000	-	-	5,000,000
Equipment, net of accumulated depreciation	-	5,514,477	52,030	5,566,507
<i>Total assets</i>	<u>\$ 5,033,097</u>	<u>5,514,477</u>	<u>52,030</u>	<u>10,599,604</u>
Liabilities				
Accounts payable	\$ 7,278	-	-	7,278
<i>Total liabilities</i>	<u>7,278</u>	<u>-</u>	<u>-</u>	<u>7,278</u>
Net Position				
Unrestricted:				
Contributions in aid, net	5,000,000	5,514,477	-	10,514,477
Unrestricted	25,819	-	52,030	77,849
<i>Total net position</i>	<u>5,025,819</u>	<u>5,514,477</u>	<u>52,030</u>	<u>10,592,326</u>
	<u>\$ 5,033,097</u>	<u>5,514,477</u>	<u>52,030</u>	<u>10,599,604</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Business-type Activities - Hovercraft, Terminal, and Helicopter**Combining Statement of Revenues, Expenses
and Changes in Net Position**Year Ended June 30, 2016*

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Helicopter</u>	<u>Total</u>
Revenues	<u>\$ -</u>	<u>141,507</u>	<u>513,238</u>	<u>654,745</u>
Operating expenses:				
Salaries and benefits	-	29,405	151,526	180,931
Contract labor	-	-	1,447,908	1,447,908
Telephone	-	3,669	1,976	5,645
Supplies	-	8,514	34,279	42,793
Rent	-	9,400	17,297	26,697
Utilities	-	16,141	6,318	22,459
Insurance	-	-	13,996	13,996
Fuel	-	19,811	143,579	163,390
Depreciation	-	252,897	19,511	272,408
<i>Total operating expenses</i>	<u>-</u>	<u>339,837</u>	<u>1,836,390</u>	<u>2,176,227</u>
Excess of revenues under expenditures	<u>-</u>	<u>(198,330)</u>	<u>(1,323,152)</u>	<u>(1,521,482)</u>
Operating Transfers In	<u>5,371,186</u>	<u>1,192,004</u>	<u>3,058,718</u>	<u>9,621,908</u>
Net change in net position	5,371,186	993,674	1,735,566	8,100,426
Net position, beginning of year	<u>(345,367)</u>	<u>4,520,803</u>	<u>(1,683,536)</u>	<u>2,491,900</u>
Net positon, end of year	<u>\$ 5,025,819</u>	<u>5,514,477</u>	<u>52,030</u>	<u>10,592,326</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit C-3

Business-type Activities - Hovercraft, Terminal, and Helicopter

Combining Statement of Cash Flows

Year Ended June 30, 2016

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Helicopter</u>	<u>Total</u>
Increase (decrease) in cash and cash equivalents -				
Cash flows from operating activities:				
Cash payments from customers	\$ 1,784	141,507	513,238	656,529
Cash payments from other sources	(4,610)	(54,567)	1,303,641	1,244,464
Cash payments for goods and services	2,826	(57,535)	(1,665,353)	(1,720,062)
Cash payments for salaries and benefits	-	(29,405)	(151,526)	(180,931)
<i>Net cash provided by operating activities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash	-	-	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of operating loss to net				
cash provided by operating activities:				
Change in net position	\$ 5,371,186	993,674	1,735,566	8,100,426
Adjustments to reconcile operating loss to				
net cash provided by operating activities:				
Depreciation	-	252,897	19,511	272,408
Decrease (increase) in current assets:				
Receivables, net	1,784	-	-	1,784
Deposits	750	-	-	750
Increase (decrease) in current liabilities:				
Accounts payable	2,076	-	-	2,076
Due to other funds	(5,375,796)	(1,246,571)	(1,755,077)	(8,377,444)
Net cash provided by operating activities	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit D-1

Deferred Compensation Agency Fund

Statement of Fiduciary Net Position

June 30, 2016

Assets

Property and rights held under deferred compensation plan	\$ <u>622,545</u>
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Net Position

Obligations to employees under deferred compensation plan	\$ <u>622,545</u>
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See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of the Borough and The Aleutians East Borough School District (School District). The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The School District is a component unit of the Borough. The School District's audited financial statements may be obtained from The School District.

No other entities exist over which the Borough has oversight responsibility.

Component Unit

The School District is a component unit of the Borough. The School District was formed July 1, 1988, as a result of the formation of the Borough on the same date. The School District was formed by incorporating King Cove City School District and Sand Point City School District. In addition, the following locations were added from Aleutian Region School District: Cold Bay, False Pass, Nelson Lagoon, and Akutan.

As the School District is organized as a government, its financial statements are prepared using accounting principles generally accepted in the United States of America as related to government organizations. As such, the financial statements are prepared using the current financial resources measurement focus and accrual method of accounting.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Government-wide and Fund Financial Statements, continued

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2016, the Borough had no restricted net position.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The financial statements of the Borough are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Borough's reporting entity applies all relevant GASB pronouncements and applicable Financial Accounting Standards Assembly (FASB) pronouncements and Accounting Principles Assembly (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Borough's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds,

Aleutians East Borough reports the following major funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Types and Major Funds, continued

- Capital Improvements - Accounts for all revenue received and expenditures made for the development and administration of capital projects.
- Trust Fund - Accounts for all revenue received and expenditures made for the development and administration of the trust fund.
- Debt Service – Accounts for all expenditures made for the retirement of and interest on debt.
- Bond Construction – Accounts for all expenditures made on projects funded by bond proceeds.
- Business-type activity – Hovercraft, Terminal, and Helicopter – Accounts for all activity for the operations of the hovercraft and helicopter.

Assets, Liabilities, and Equity

Deposits and Investments - The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Receivables and Payables - All outstanding balances between funds are reported as "due to/from other funds." These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. The direct write-off method is used for estimated uncollectible accounts receivable.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets - The Borough's property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are stated at fair value on the date donated. The Borough generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings	25
Infrastructure	30
Furniture, Vehicles and equipment	3 to 7

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences - It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminated employees and are included in wages and benefits payable.

Unearned Revenue - Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as deferred revenue.

Long-term Debt - In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows - For the purpose of pension recording, changes within the net pension liability due to revisions in actuarial predictions, are amortized over the remaining service life rather than fully expensed in the year of change. In addition contribution to the pension plan are deferred to the following fiscal year to ensure matching with the Pension's measurement period.

Fund Equity - In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources, they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balances comprises the remaining four classifications: restricted, assigned, and unassigned.

Committed fund balance - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the tribal council-the government's highest level of decision making authority. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance - This classification reflects the amounts constrained by the Borough's assembly members "intent" to be used for specific purposes, but are neither restricted nor committed.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

Beginning in fiscal year 2003, the Borough is forward funding its general fund expenditures and reserving general fund balance to the extent of current-year general fund revenue except coastal management and LEPC grants.

NOTE 3 - CASH AND INVESTMENTS

The Borough's investment policy authorizes the Borough to invest in U.S. Treasury securities; obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements; certificates of deposit; bonds and notes which are issued by any state or political subdivision thereof which are graded "A" or higher by Moody's Investor's Service, Inc.; prime commercial paper graded "A1" or higher by Moody's Investor's Service, Inc.; banks and savings and loan associations to the extent that deposits are insured by Federal Depository Insurance Corporation or Federal Savings and Loan Insurance Corporation; obligations of corporations, provided the obligations are graded "Baa" or higher by Moody's Investor's Service Inc., or Standard and Poor's Corporation and issued in the United States and denominated in US dollars, not more than 15% of the fixed income portfolio may be held in Baa rated securities; The Alaska Municipal League Investment Pool, Inc.; and Income producing real estate investments. Additionally, the policy authorizes the Borough invest permanent fund assets to maintain safety of principle while maximizing the total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution, or with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in the following securities:

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 3 - CASH AND INVESTMENTS, continued

Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's); International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Europe, Australiasia, Far East (EAFE) Index, including both mutual funds and exchange traded funds (ETF's); Equities, which take as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT index or the Cohen and Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF'S); and Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 400 Midcap Index, including both moth mutual funds and exchange traded funds (ETF's).

The permanent fund may invest up to 35 percent of total invested permanent funds in common and preferred stock listed on a recognized exchange and a mutual fund designed to replicate the Standard and Poor's 500 Index. The permanent fund may also invest in international equities up to a maximum of 5 percent of the total permanent fund. Performance measurement for the Fixed Income Allocation will be measured against the Target weighting using the Lehman Intermediate Gov/Credit Index for the Benchmark.

The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.

Statutes require that the Borough's deposits in excess of FDIC or FSLIC limits be collateralized by government securities, at year end the borough funds were fully collateralized. Cash resources for some of the various funds are maintained in a central treasury represented by a sweep checking account and certificate of deposit. Cash is swept and commingled with the School District's moneys within Borough accounts on a daily basis.

The Borough participates in the Alaska Municipal League Investment Pool (AMLIP). This investment pool consists of governmental investors within the State of Alaska. AMLIP does not carry its own institutional insurance or collateralization for funds it invests. The organizing document does state that certificates of deposit must be collateralized or covered by federal insurance by the issuing entity. The carrying amount and market value at June 30, 2016, was \$50,843.

Cash and investment balances are as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Cash and cash equivalents per Primary government	\$ 6,158,508	4,360,638
Cash and cash equivalents per Component Unit	3,487,420	3,487,420
Investments, at fair market value	<u>49,910,267</u>	<u>49,910,267</u>
	<u>\$ 59,556,195</u>	<u>57,758,325</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 3 - CASH AND INVESTMENTS, continued

Components of investment activity at June 30, 2016 was as follows:

Interest	\$	238,946
SW Governments, LLC		34,032
Dividends		802,160
Fees		(17,302)
Realized gains		(695,055)
Unrealized gains		<u>965,335</u>
	\$	<u><u>1,328,116</u></u>

Investment income affected the following funds at June 30, 2016:

General Fund - unreserved	\$	7,742
Capital Improvements - reserved		846
Trust Fund - reserved		1,296,492
Bond Construction - unreserved		<u>23,036</u>
	\$	<u><u>1,328,116</u></u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2016, follows:

	June 30, 2015	Additions	Retirements	June 30, 2016
Governmental funds:				
Capital assets not being depreciated:				
Land	\$ 5,323,074	-	-	5,323,074
Construction in process	11,987,231	4,570,133	(97,216)	16,460,148
<i>Total capital assets not being depreciated</i>	<u>17,310,305</u>	<u>4,570,133</u>	<u>(97,216)</u>	<u>21,783,222</u>
Other Capital assets:				
Buildings and improvements	45,318,426	248,216	(243,252)	45,323,390
Infrastructure	62,245,095	-	-	62,245,095
Furniture and equipment	759,258	-	-	759,258
Vehicles	281,089	-	-	281,089
	108,603,868	248,216	(243,252)	108,608,832
Less accumulated depreciation	<u>(60,577,387)</u>	<u>(2,471,690)</u>	<u>180,007</u>	<u>(62,869,070)</u>
<i>Total capital assets - governmental funds</i>	<u>\$ 65,336,786</u>	<u>2,346,659</u>	<u>(160,461)</u>	<u>67,522,984</u>
Enterprise funds:				
Hovercraft	\$ 5,000,000	-	-	5,000,000
Terminal	7,403,571	-	-	7,403,571
Helicopter	97,556	-	-	97,556
	12,501,127	-	-	12,501,127
Less accumulated depreciation	<u>(1,662,212)</u>	<u>(272,408)</u>	<u>-</u>	<u>(1,934,620)</u>
<i>Total capital assets - enterprise funds:</i>	<u>\$ 10,838,915</u>	<u>(272,408)</u>	<u>-</u>	<u>10,566,507</u>

Depreciation expense of \$2,471,690 was charged to the general fund, depreciation expense of \$272,408 was charged to the enterprise funds, and was allocated to the terminal and helicopter in the amount of \$252,897 and \$19,511 respectively.

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at June 30, 2016, represents infrastructure not yet placed in service.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are shown as “due to” and “due from” in each individual fund within the governmental fund financial statements. These balances represent short-term interfund borrowings at June 30, 2016, and were as follows:

	Due from Other Funds	Due to Other Funds
Major funds:		
General fund	\$ 7,036,403	-
Capital Improvements	-	1,793,595
Trust Fund	-	1,950,622
Debt Service	-	64,933
Bond Construction	-	3,328,342
Maintenance Reserve	-	179,681
<i>Total Major Funds</i>	<u>7,036,403</u>	<u>7,317,173</u>
Nonmajor funds:		
King Cove Access Project	<u>280,770</u>	<u>-</u>
<i>Total Nonmajor Funds</i>	<u>280,770</u>	<u>-</u>
	<u>\$ 7,317,173</u>	<u>7,317,173</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 6 - LONG-TERM DEBT

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2016:

Bonds payable at July 1, 2015	\$ 28,610,000
Principal payments	<u>(1,335,000)</u>

Bonds payable at June 30, 2016	\$ <u>27,275,000</u>
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General obligation bonds payable at June 30, 2016, are comprised of the following:

\$5,000,000 - 2011 Akutan Airport and King Cove Access Project due in variable installments ranging from \$175,000 to \$1,560,000 through October 1, 2031; interest rate is variable from 2.0 to 5.4 percent	\$ 3,955,000
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\$21,095,000 - 2007 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$53,550 to \$2,433,550 through December 1, 2028; interest rate is variable from 3.75 to 5.0 percent	19,525,000
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\$3,460,000 - 2011 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$65,000 to \$905,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	1,925,000
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\$2,205,000 - 2015 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$2,375 to \$383,123 through October 1, 2025; interest rate is variable from 2.0 to 5.0 percent	<u>1,870,000</u>
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Total bonds payable	\$ <u>27,275,000</u>
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THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 6 - LONG-TERM DEBT, continued**

Annual requirements to amortize all Borough general obligation bonds and leases payable as of June 30th follow:

Year ending	Principal	Interest	Total
2017	\$ 1,445,000	1,206,691	2,651,691
2018	1,530,000	1,142,991	2,672,991
2019	1,625,000	1,072,916	2,697,916
2020	1,715,000	995,228	2,710,228
2021	1,810,000	910,930	2,720,930
2022-2031	10,825,000	3,196,773	14,021,773
2032-2036	8,325,000	679,594	9,004,594
2037-2041	-	-	-
	<u>\$ 27,275,000</u>	<u>9,205,120</u>	<u>36,480,120</u>

NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds for the current year were:

	Budget	Actual Expenditures	Over Budget
General fund	\$ 3,685,387	3,686,837	(1,450)
Capital Improvements fund	2,015,000	2,111,830	(96,830)
Trust fund	35,000	41,422	(6,422)
	<u>\$ 2,050,000</u>	<u>2,153,252</u>	<u>(103,252)</u>

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS

Aleutian East Borough (AEB) participates in one defined benefit pension plan. The Public Employees' Retirement System (PERS) is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available via the internet at <http://doa.alaska.gov/drj>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the DB pension plans, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. The tiers within the Plan establishes differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

The PERS DB Plan was closed to new entrants on July 1, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

Historical Context and Special Funding Situation

Originally, PERS was an agent multiple-employer plan. In April 2008, the Alaska Legislature passed legislation converting the PERS agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded "onbehalf" contribution (subject to funding availability), and required that employer contributions be calculated against *all* PERS eligible wages, including wages paid to participants of the PERS defined contribution plan described later in these footnotes.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law has determined that the statutes do not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State has determined that the Plan is *not* in a special funding situation.

Management of AEB believes that AS 39.35.255 and AS 39.35.280 do constitute a special funding situation under GASB 68 rules and has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis, pending a final legal determination, as may be required to settle the matter.

AEB records the on-behalf contributions as revenue and expenditures in the fund financial statements. However, current year expenditures are adjusted to deferred outflows in the government-wide financial statements. Prior year expenditures and on-behalf contributions (and other adjustments) reflect expenses at the government-wide level.

Employee Contribution Rates

Employees are required to contribute 6.75% of their annual covered salary for PERS.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

Employer Effective Rate: This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages for PERS, subject to a wage floor, and other termination events. These rates are applied to all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board rates in future years.

On-behalf Contribution Rate: This is the rate normally paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in 2015, the State Legislature appropriated a onetime contribution to the Plan in the amount of \$1 billion for PERS. As a result, the On-behalf Contribution Rate for 2015 significantly exceeds the statutory amounts. As noted earlier, the on-behalf contributions are recognized in the fund financial statements as revenues and expenditures in the year they are appropriated by the State. In the government wide financial statements, such on-behalf contributions in the subsequent measurement period, result in a one year lag.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB rate disregards all future Medicare Part D payments. For FY16, the GASB rate uses an 8.00% pension discount rate and a 4.55% healthcare discount rate for PERS. The GASB rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

Contribution rates for the year ended June 30, 2016 were determined in the June 30, 2014 actuarial valuation.

<u>Pers Rates - 2016</u>	<u>Contractual Rate</u>	<u>ARM Board Adoption Rate</u>	<u>State Contribution Rate</u>	<u>GASB Rate</u>
Pension	13.25%	19.04%	3.63%	37.79%
Postemployment Health Care	8.75%	8.15%	1.56%	58.73%
Total Contribution Rate	22.00%	27.19%	5.19%	96.52%

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued**

In 2016, AEB was credited with the following contributions into the pension plan.

	Measurement Period	
	FY15	FY16
Employer contributions (including DBUL)	\$ 126,858	135,690
Nonemployer contributions (on-behalf)	<u>387,469</u>	<u>53,377</u>
Total Contributions	<u>\$ 514,327</u>	<u>189,067</u>

In addition, employee contributions to the Plan totaled \$45,182 during the measurement period 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, AEB reported a liability for its proportionate share of the net pension liability that reflected a reduction for State support provided to AEB. The amount recognized by AEB as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with AEB were as follows:

	Net Pension Liability
Borough's proportionate share of NPL	\$ 1,592,614
State's proportionate share of NPL associated with the Borough	<u>426,877</u>
Total	<u>\$ 2,019,491</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. AEB's proportion of the net pension liability was based on a projection of AEB's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, AEB's proportion of PERS was 0.03284 percent, which was an increase of 0.00426 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, AEB recognized pension expense of \$233,283 for PERS. In addition, AEB recognized on-behalf revenue from the State of Alaska in the amount of \$53,377 for PERS. At June 30, 2016, AEB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued**

	Deferred Outflow of Resources	Deferred Inflow of Resources
Balance at June 30, 2015	\$ 95,397	153,999
Employer contribution subsequent to measurement date deferred in the prior year	(94,628)	-
Difference between expected and actual experience	1,856	-
Changes in assumptions	93,122	-
Net difference between projected and actual earnings on pension plan investments	-	28,196
Changes in proportion and differences between employer contributions and proportionate share of contributions	177	28,379
Employer contributions subsequent to the measurement date	<u>135,690</u>	<u>-</u>
Total	<u>\$ 231,614</u>	<u>210,574</u>

\$135,690 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,

2017	\$ 42,613
2018	(12,054)
2019	(18,108)
2020	26,129
2021	-
Thereafter	-

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2015. The actuarial valuations for the year ended June 30, 2015 (latest available) were prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience. Generally, PERS follows the same assumptions, except as noted:

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued**

Inflation	3.12%
Salary Increases	Graded by age and service, from 9.66% to 4.92% for Peace Officer/Firefighter Graded by age and service, from 8.55% to 4.34% for all others
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over
Mortality	Pre-Termination: Based on 2010-2013 actual mortality experience Post-Termination - based on 95% of all rates of the RP-2000 table, 2000 Base Year Projected to 2018 with Projected Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	26.00%	5.35%
Global Ex-U.S. equity	25.00%	5.55%
Fixed composite	12.00%	0.80%
Real estate	17.00%	3.65%
Private equity	9.00%	6.25%
Absolute return	5.00%	2.85%
Alternative equity strategies	3.00%	4.70%
Cash equivalents	3.00%	0.25%

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 – DEFINED BENEFIT (DB) PENSION PLANS, continued

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the Retirement System's net pension liability and AEB's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what AEB's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
System Net Pension Liability	100.0%	\$ 6,447,683,000	4,850,014,000	3,504,942,000
Borough's proportionate share of the net pension liability	0.03284%	2,117,246	1,592,615	1,150,929

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial reports.

NOTE 9 – DEFINED CONTRIBUTION (DC) PENSION PLAN

Employees hired on or after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan, and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drdb>.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 9 – DEFINED CONTRIBUTION (DC) PENSION PLAN, continued

Contributions to the DC plans consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that AEB contribute at 22%. After deducting the DC pension plan contributions and related DC OPEB contributions, the remaining remittance (the DBUL) is deposited into the DB plan (pension and/or OPEB) as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service.

Employee Contribution Rate

Employees are required to contribute 8.0% of their annual covered salary for PERS. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2016, AEB was required to contribute 5% of covered salary into PERS.

AEB and employee contributions to PERS for pensions for the year ended June 30, 2016 were \$14,598 and \$23,357, respectively.

AEB's contributions are recognized as pension expense/expenditures.

NOTE 10 – Other Post-Employment Benefit (OPEB) Plans

Defined Benefit OPEB

As part of its participation in the PERS Plan (Tiers I, II, and III), AEB participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The Plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established in concert with the Defined Benefit Pension Plan described earlier in these notes.

Employer Contribution Rates

AEB is required to contribute 8.75% of covered payroll into the PERS OPEB plan. In addition, during 2016, the State on-behalf contribution into the PERS OPEB plan was 1.56% of covered payroll.

Employees do not contribute to the DB OPEB plans.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 10 – Other Post-Employment Benefit (OPEB) Plans, continued***Annual Postemployment Healthcare Cost*

Actual contributions into the plan for the last three years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Costs</u>	<u>Borough Contributions</u>	<u>% of Costs Contributed</u>
2015	\$ 95,573	95,573	100%
2014	71,387	71,387	100%
2013	120,609	120,609	100%

On-behalf contributions for PERS OPEB were \$15,965, \$0, and \$49,396 for 2016, 2015, and 2014, respectively. Those amounts are not reflected in the OPEB costs in the table above.

Defined Contribution OPEB

Defined Contribution Pension Plan Participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD), and the Retiree Medical Plan. Information on these plans is included in the comprehensive annual financial report for the PERS plan noted above. These plans provide for death, disability, and post-employment health care benefits.

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates were as follows for the year ended June 30, 2016:

	<u>PERS Tier IV</u>
Retiree medical plan	1.68%
Occupational death and disability benefits	<u>0.22%</u>
	1.90%

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan". As of July 1, 2014, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$2,005 per year for each full-time employee, and \$1.28 per hour for part-time employees for PERS.

Annual Postemployment Healthcare Cost

In 2016, AEB contributed \$14,725 in DC OPEB costs to PERS. These amounts have been recognized as expense/expenditures.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 11 - DEFERRED COMPENSATION PLAN

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled \$622,545 at June 30, 2016, and are accounted for in the deferred compensation agency fund.

NOTE 12 - THE ALEUTIANS EAST BOROUGH SCHOOL DISTRICT CONTRIBUTION

During the year ended June 30, 2016, the Borough contributed \$1,036,500 to the Aleutians East Borough School District, which is a component unit of the Borough. Of this amount, \$1,000,000 was for a local contribution, \$16,500 was for scholarships, and \$20,000 was for student travel.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The Aleutians East Borough participates in a number of federal- and State-assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

Litigation

A claim was submitted by Kelly-Ryan, Inc, against the Army Corps of Engineers arising from a contract dispute relating to the construction of the False Pass Harbor. The claim was filed for equitable adjustment of contract price/breach of contract damages asserting a claim of \$36,231,362 of an original contract amount of \$15,981,000. Since the project cooperation agreement between the Department of the Army and the Borough provides for cost sharing on the part of the Borough of up to 10%, subject to certain conditions, restriction, and calculations. It has been advised that the borough is responsible for 10% of construction costs and 10% of any litigation claim awarded to Kelly-Ryan, Inc.

At the date of the financial statements, the amount of the loss contingency, if any, was not reasonably estimatable, and deemed neither probable nor remote, hence no contingencies have been booked in the current year.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 13 - COMMITMENTS AND CONTINGENCIES, continued

Litigation

On March 1, 2016, the lawsuit brought forth by the borough against ASRC SKW Eskimos, Inc. regarding numerous causes of action relating to faulty construction of King Cove school building was resolved favorably for the borough, and dismissed by stipulation of the parties. Due to the favorable outcome, no risk of loss remains for the Borough.

NOTE 14 – SUBSEQUENT EVENTS

In preparing these financial statements, the Borough has evaluated all other events and transactions for potential recognition or disclosure through March 8, 2017, the date the financial statements were issued and has concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

NOTE 15 – INVESTMENT IN SOUTHWEST GOVERNMENTS, LLC

The Borough has an interest in Southwest Governments, LLC. The partnership was formed by the City of Akutan (40%), the City of Sand Point (20%), the City of King cove (10%), and the Borough (30%). The Borough leases office space from the partnership, total payments to the partnership for the year were \$114,005. The partnership paid \$30,000 in distributions during 2016. The balance of the Borough's ownership at June 30, 2016 was \$416,583.

NOTE 16 – SUBSEQUENT ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that GASB Statement 76 have the greatest impact. Actual impacts have not yet been determined:

GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Effective for periods beginning after June 15, 2015, applied retroactively. This statement supersedes GASB 55.

GASB 72 – Fair Value Measurement and Application. Effective for periods beginning after June 15, 2015. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

NOTE 17 – HELICOPTER OPERATIONS

During fiscal year 2014, the Borough entered into a contract with Maritime Helicopters to transport people and mail from Akutan Airport to the City of Akutan. The contract is in effect through November 2016, with an option to renew for two years.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 18 – PRIOR PERIOD ADJUSTMENTS**

During 2016, the borough recorded a prior period adjustment to net position which comprised an increase to net position of \$348,108 to record state bond rebates which the borough had received in the prior year, but failed to recognize.

	Opening net position, as originally posted	Change in accounting principle adjustment	Other Prior Period Adjustments	Opening net position as restated
Governmental Funds:				
General Fund	\$ 19,507,594	-	348,108	19,855,702
Bond Contruction Fund	350,478	-	-	350,478
Other Funds	38,861,833	-	-	38,861,833
Total	<u>\$ 58,719,905</u>	<u>-</u>	<u>348,108</u>	<u>59,068,013</u>
Governmental Activities:				
Primary Government	\$ 94,136,330	-	-	94,136,330
Business-Type Activites	2,491,900	-	-	2,491,900
Total	<u>\$ 96,628,230</u>	<u>-</u>	<u>-</u>	<u>96,628,230</u>

SUPPLEMENTAL INFORMATION

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit E-1

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual*

Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Federal government:				
Payment in lieu of taxes	\$ 559,000	531,133	531,133	-
<i>Total federal government</i>	<u>559,000</u>	<u>531,133</u>	<u>531,133</u>	<u>-</u>
State of Alaska:				
Raw fish tax	1,769,278	1,602,958	1,835,070	232,112
State bond rebate	1,045,464	1,729,042	1,269,557	(459,485)
State fish landing tax	35,217	20,922	20,922	-
State extraterritorial fish tax	101,299	349,514	117,402	(232,112)
State revenue sharing	396,982	389,288	389,288	-
<i>Total State of Alaska</i>	<u>3,348,240</u>	<u>4,091,724</u>	<u>3,632,239</u>	<u>(459,485)</u>
Borough raw fish tax	3,200,779	4,440,651	4,675,160	234,509
Investment income	35,000	7,742	7,742	-
Other	71,256	248,442	608,834	360,392
<i>Total revenues</i>	<u>7,214,275</u>	<u>9,319,692</u>	<u>9,455,108</u>	<u>135,416</u>
Expenditures:				
Mayor's office:				
Salaries	77,712	77,712	77,712	-
Fringe benefits	28,592	34,782	34,782	-
Travel and per diem	36,000	23,000	22,258	742
Telephone	2,400	2,400	1,643	757
Supplies	1,000	1,000	263	737
Lobbying	120,600	120,600	111,515	9,085
<i>Total Mayor's office</i>	<u>266,304</u>	<u>259,494</u>	<u>248,173</u>	<u>11,321</u>
Assembly:				
Salaries	25,000	28,200	28,200	-
Fringe benefits	56,000	113,327	113,326	1
Travel and per diem	40,000	42,388	42,388	-
Telephone	-	-	116	(116)
Supplies	3,000	2,000	1,675	325
<i>Total assembly</i>	<u>124,000</u>	<u>185,915</u>	<u>185,705</u>	<u>210</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Clerk and planning management:				
Salaries	\$ 91,059	87,818	87,818	-
Fringe benefits	34,306	52,380	52,380	-
Travel and per diem	12,500	8,095	8,094	1
Telephone	7,500	5,759	5,759	-
Postage	1,500	1,500	83	1,417
Supplies	9,000	2,000	1,829	171
Utilities	20,000	18,000	17,937	63
Dues and fees	5,000	5,963	5,963	-
Elections	8,000	4,550	4,550	-
Planning Commission	92,500	13,500	13,491	9
<i>Total clerk and planning management</i>	<u>281,365</u>	<u>199,565</u>	<u>197,904</u>	<u>1,661</u>
Administration:				
Salaries	187,153	200,823	200,823	-
Fringe benefits	65,798	98,159	98,159	-
Contract labor	7,500	3,000	3,000	-
Engineering	25,000	7,300	7,243	57
Travel and per diem	25,500	20,500	20,244	256
Telephone	7,100	7,670	7,667	3
Postage	2,500	1,000	875	125
Supplies	18,120	15,470	15,463	7
Rent	23,404	26,336	26,336	-
Dues and fees	2,500	2,065	2,065	-
<i>Total administration</i>	<u>364,575</u>	<u>382,323</u>	<u>381,875</u>	<u>448</u>
Assistant administrator:				
Salaries	92,700	92,700	92,700	-
Fringe benefits	30,782	39,257	39,257	-
Travel and per diem	10,000	8,900	8,888	12
Telephone	4,000	900	857	43
Postage	200	-	-	-
Supplies	2,500	3,126	3,126	-
Rent	8,903	9,455	9,455	-
<i>Total assistant administrator</i>	<u>149,085</u>	<u>154,338</u>	<u>154,283</u>	<u>55</u>
Finance:				
Salaries	130,848	135,574	135,574	-
Fringe benefits	52,725	65,223	65,223	-
Travel and per diem	7,000	2,700	2,647	53

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit E-1,
continued

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Finance, continued:				
Telephone	\$ 5,000	8,445	8,445	-
Postage	2,500	1,015	1,015	-
Supplies	7,500	11,118	11,117	1
Utilities	5,000	3,735	3,734	1
Audit	45,000	50,345	50,345	-
<i>Total finance</i>	<u>255,573</u>	<u>278,155</u>	<u>278,100</u>	<u>55</u>
Resource department:				
Salaries	89,516	89,517	89,517	-
Fringe benefits	30,822	38,477	38,477	-
Contract labor	31,250	32,600	32,600	-
Travel and per diem	35,000	25,300	9,782	15,518
Meetings	30,000	45,993	45,895	98
Telephone	3,000	700	605	95
NPFMC	15,000	-	-	-
Supplies	7,000	1,500	1,472	28
Rent	8,903	9,519	9,519	-
Public information officer	176,392	173,007	172,934	73
<i>Total resource department</i>	<u>426,883</u>	<u>416,613</u>	<u>400,801</u>	<u>15,812</u>
Public works:				
Salaries	82,232	89,396	89,396	-
Fringe benefits	30,384	39,326	39,326	-
Travel and per diem	11,000	18,428	18,428	-
Telephone	1,500	1,230	1,224	6
Supplies	3,000	11,275	11,275	-
Equipment	1,500	-	-	-
Utilities	2,000	2,471	2,471	-
<i>Total public works</i>	<u>131,616</u>	<u>162,126</u>	<u>162,120</u>	<u>6</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Other:				
Local school contribution	\$ 800,000	1,000,000	1,000,000	-
Student scholarship	20,000	3,500	16,500	(13,000)
Student travel	20,000	-	20,000	(20,000)
Equipment	35,000	14,600	14,598	2
Legal	175,000	67,000	66,105	895
Insurance	150,000	190,523	190,523	-
Bank fees	2,000	16,632	16,632	-
Contribution to Eastern Aleutians Tribes	150,000	150,000	150,000	-
Revenue sharing - Nelson Lagoon	32,000	19,300	19,300	-
Aleutia Crab	58,522	55,122	55,057	65
King Cove Access Project	112,500	22,977	22,977	-
Donations	23,500	12,650	12,650	-
Web service	40,000	30,000	29,614	386
Miscellaneous expense	96,000	64,554	63,920	634
<i>Total other</i>	<u>1,714,522</u>	<u>1,646,858</u>	<u>1,677,876</u>	<u>(31,018)</u>
<i>Total expenditures</i>	<u>3,713,923</u>	<u>3,627,237</u>	<u>3,686,837</u>	<u>(1,450)</u>
Excess of revenues over expenditures	<u>3,500,352</u>	<u>4,771,785</u>	<u>5,768,271</u>	<u>133,966</u>
Other financing uses - Operating transfers:				
Debt service fund	(2,170,000)	(2,600,688)	(2,600,688)	-
Enterprise funds	-	-	(9,621,908)	9,621,908
<i>Total other financing uses</i>	<u>(2,170,000)</u>	<u>(2,600,688)</u>	<u>(12,222,596)</u>	<u>9,621,908</u>
Excess of revenues over expenditures and other financing uses	<u>\$ 1,330,352</u>	<u>2,171,097</u>	<u>(6,454,325)</u>	<u>9,755,874</u>
Prior Period Adjustment			348,108	
Beginning fund balance			<u>19,507,594</u>	
Ending fund balance			<u>\$ 13,401,377</u>	

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Capital Improvements

*Statement of Revenues, Expenses,
and Changes in Fund Deficit*

Year Ended June 30, 2016

Revenues:

Federal revenue	\$ 1,008,506
State revenue	119,146
Investment income	846
Contributions	415,267
Other	25,982
<i>Total revenues</i>	<u>1,569,747</u>

Expenditures:

Salaries	2,534
Contractual	15,267
Supplies	22,917
Capital projects	2,071,112
<i>Total capital outlays</i>	<u>2,111,830</u>

Other financing sources

Operating transfer from trust fund	808,000
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Excess of revenues over expenditures	<u>265,917</u>
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Beginning fund deficit	<u>(105,994)</u>
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Ending fund balance	<u>\$ 159,923</u>
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THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Trust Fund

*Statement of Revenues, Expenses,
and Changes in Fund Balance*

Year Ended June 30, 2016

Revenues:	
Investment income	\$ 1,296,492
<i>Total revenues</i>	<u>1,296,492</u>
Expenditures - management fee	<u>41,422</u>
<i>Total expenditures</i>	<u>41,422</u>
Other financing sources - Operating transfers	
Capital improvements fund	(808,000)
Maintenance reserve fund	<u>(320,000)</u>
<i>Total other financing sources</i>	(1,128,000)
Excess of revenues over expenditures	127,070
Beginning fund balance	<u>38,751,990</u>
Ending fund balance	<u><u>\$ 38,879,060</u></u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit H-1

Debt Service

*Statement of Revenues, Expenses,
and Changes in Fund Deficit*

Year Ended June 30, 2016

Revenues - Investment income	\$ -
Expenditures:	
Principle	1,335,000
Interest	<u>1,265,688</u>
<i>Total expenditures</i>	<u>2,600,688</u>
Excess of expenditures over revenues	(2,600,688)
Other financing sources	
Operating transfer from general fund	<u>2,600,688</u>
<i>Total other financing sources</i>	<u>2,600,688</u>
Excess of expenditures and other financing source over revenues	-
Beginning fund balance	<u>(64,933)</u>
Ending fund deficit	<u><u>\$ (64,933)</u></u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit I-1

Bond Construction

*Statement of Revenues, Expenses,
and Changes in Fund Balance*

Year Ended June 30, 2016

Revenues:	
Investment income	\$ 23,036
<i>Total revenues</i>	<u>23,036</u>
Expenditures - capital outlays	<u>1,048,576</u>
Excess of expenditures over revenues	(1,025,540)
Beginning fund balance	350,478
Ending fund deficit	<u>\$ (675,062)</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Nonmajor Funds**Combining Balance Sheet**June 30, 2016*

	King Cove Access Project	Total
Assets		
Due from other funds	\$ 280,770	280,770
	<u>\$ 280,770</u>	<u>280,770</u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ -	-
<i>Total liabilities</i>	<u>-</u>	<u>-</u>
 Fund balances:		
Committed - Construction	280,770	280,770
Assigned - Designated for major maintenance	-	-
<i>Total fund balances</i>	<u>280,770</u>	<u>280,770</u>
	<u>\$ 280,770</u>	<u>280,770</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit J-2

Nonmajor Funds

*Statement of Revenues, Expenditures
and Changes in Fund Balance*

Year Ended June 30, 2016

	<u>Total</u>
Revenues:	
Proceeds of Sales	\$ -
Other	-
<i>Total revenues</i>	<u>-</u>
 Expenditures - Capital outlay:	
Salaries and benefits	-
Contractual	-
Legal	-
Travel	-
Supplies	-
Capital projects	-
<i>Total expenditures - Capital outlay</i>	<u>-</u>
 Other financing sources	
Operating transfer from trust fund	-
 Excess of revenues under expenditures	-
 Beginning fund balances	<u>280,770</u>
 Ending fund balances	<u><u>\$ 280,770</u></u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

June 30, 2015

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Borough's proportion of the net pension liability	0.03284%	0.02858%	0.02855%	*	*	*	*	*	*	*
Borough's proportionate share of the net pension liability	\$ 1,592,614	1,332,935	1,499,404	*	*	*	*	*	*	*
State of Alaska proportionate share of the net pension liability	<u>426,877</u>	<u>782,704</u>	<u>889,275</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Total net pension liability	<u>2,019,491</u>	<u>2,115,639</u>	<u>2,388,679</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Borough's covered-employee payroll	\$ 576,627	498,241	447,473	*	*	*	*	*	*	*
Borough's proportionate share of the net pension liability as a percentage of covered-employee payroll	276%	268%	335%	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%	56.00%	*	*	*	*	*	*	*

* Information for these years is not available.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Schedule of Required Contributions

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 135,690	126,858	109,613	98,444	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>135,690</u>	<u>126,858</u>	<u>109,613</u>	<u>98,444</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Borough's covered-employee payroll	\$ 616,773	576,627	\$ 498,241	\$ 447,473	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	22%	22%	22%	22%	*	*	*	*	*	*

* Information for these years is not available.

FEDERAL COMPLIANCE REPORT

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grant Title	Award Identification	CFDA Number	Total Grant Award	Eligible Expenditures
U.S. Department of Interior:				
Payment in lieu of taxes*	Unknown	15.226	\$ 531,133	531,133
Nelson Lagoon Erosion	10-CIAP-013	15.668	238,800	8,037
<i>Total Department of the Interior</i>			<u>769,933</u>	<u>539,170</u>
Department of Housing and Urban Development:				
Nelson Lagoon Coastal Erosion	14-CDBG-04	14.228	691,000	3,041
<i>Total Department of Housing and Urban Development:</i>			<u>691,000</u>	<u>3,041</u>
U.S. Department of Commerce:				
Akutan Harbor Float Improvement Project*	07-01-06812	11.300	1,000,000	997,428
<i>Total Department of Commerce</i>			<u>1,000,000</u>	<u>997,428</u>
Total federal awards			<u>\$ 2,460,933</u>	<u>1,539,639</u>

*Indicates a major program for compliance audit purposes.

This schedule was prepared on the accrual basis of accounting.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Schedule of Expenditures of Federal Financial Awards

June 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Aleutians East Borough under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedules present only a selected portion of the operations of Aleutians East Borough they are not intended to and do not present the financial position, changes in net position, or cash flows of Aleutians East Borough.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Cost principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – FEDERAL INDIRECT RATE

Aleutians East Borough used the federal 10% de minimis rate



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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Aleutians East Borough's basic financial statements, and have issued our report thereon dated March 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aleutians East Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aleutians East Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of Aleutians East Borough's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aleutians East Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska
March 8, 2017



Newhouse & Vogler

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Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance as Required by Uniform Guidance

Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
Anchorage, Alaska

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Aleutians East Borough's compliance with the types of compliance requirements described in *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* that could have a direct and material effect on each of the Aleutians East Borough's major federal programs for the year ended June 30, 2016. The Aleutians East Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Aleutians East Borough's major federal programs based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Title 2 U.S. CFR Part 200 Uniform Guidance*, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and *Title 2 U.S. CFR Part 200, Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination on the Aleutians East Borough's compliance.

Opinion on each Major Federal Program

In our opinion, the Aleutians East Borough complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Report on Internal Control over Compliance

Management of The Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered The Aleutians East Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Title 2 U.S. CFR Part 200, Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Aleutians East Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Title 2 U.S. CFR, Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska
March 8, 2017

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

*Summary of Auditor's Results and
Schedule of Findings and Questioned Costs*

Year Ended June 30, 2016

FINANCIAL STATEMENTS

Type of auditor report issued:		Unmodified
Material weakness in internal control over financial reporting identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Noncompliance related to the financial statements identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

FEDERAL AWARDS

Type of auditor report issued on compliance over major programs:		Unmodified
Material weakness in internal control over major programs identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Audit findings that are required to be reported in accordance with 2 U.S. CFR Part 200, Uniform Guidance	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster of Programs</u>
15.226	DOI- PILT
11.300	Akutan Harbor Float Improvement Project

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to federal awards for the year ended June 30, 2016.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Summary of Prior Audit Findings

Year Ended June 30, 2016

There are no prior findings or questioned costs.

STATE COMPLIANCE REPORTS

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of State Financial Assistance

Year Ended June 30, 2016

Grant Title	Award Identification	Period	Total Grant Award	State Share of Expenditures
Department of Community and Regional Affairs:				
Fish landing tax supplement*	Unknown	7/01/15 - 6/30/16	\$ 117,402	117,402
Fish landing tax	Unknown	7/01/15 - 6/30/16	<u>20,922</u>	<u>20,922</u>
<i>Total Department of Community and Regional Affairs</i>			<u>138,324</u>	<u>138,324</u>
Department of Commerce, Community and Economic Development:				
Revenue sharing*	Unknown	7/01/15 - 6/30/16	389,288	389,288
Akutan Harbor Floats	15-DC-004	7/01/14 - 6/30/19	<u>300,000</u>	<u>37,547</u>
<i>Total Department of Commerce, Community and Economic Development:</i>			<u>2,648,280</u>	<u>508,434</u>
Department of Transportation & Public Facilities:				
King Cove Access Project*	14-RR-067	7/01/14 - 6/30/18	<u>1,958,992</u>	<u>81,599</u>
Department of Revenue -				
Raw fish tax*	Unknown	7/01/15 - 6/30/16	<u>1,835,070</u>	<u>1,835,070</u>
Department of Education -				
Debt retirement*	Unknown	7/01/15 - 6/30/16	<u>1,269,557</u>	<u>1,269,557</u>
Department of Administration:				
Pers on-behalf	Unknown	7/01/15 - 6/30/16	<u>53,246</u>	<u>53,246</u>
Total State financial assistance			<u>\$ 5,944,477</u>	<u>3,804,631</u>

*Indicates a major program.

This schedule was prepared on the accrual basis of accounting.



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Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

Report on Compliance for Each Major State Program

We have audited Aleutians East Borough's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of Aleutians East Borough's major state programs for the year ended June 30, 2016. Aleutians East Borough's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Aleutians East Borough's major state programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However our audit does not provide a legal determination of Aleutians East Borough's compliance.

Opinion on Each Major State Program

In our opinion, Aleutians East Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Report on Internal Control over Compliance

Management of Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aleutians East Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aleutians East Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska
March 8, 2016

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

*Summary of Auditor's Results and
Schedule of Findings and Questioned Costs*

Year Ended June 30, 2016

FINANCIAL STATEMENTS

Type of auditor report issued:			Unmodified
Internal Control over financial reporting:			
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No	
Noncompliance material to financial statements?	<u> </u> Yes	<u> X </u> No	

STATE FINANCIAL ASSISTANCE

Type of auditor report issued on compliance for major programs:			Unmodified
Internal control over major programs:			
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No	

Dollar threshold used to distinguish a state major program:	\$ 75,000
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR STATE AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to state awards for the year ended June 30, 2016.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Summary of Prior Audit Findings

Year Ended June 30, 2016

There were no prior audit findings.